

VZCZCXRO3563  
OO RUEHAST RUEHBI RUEHCI RUEHDBU RUEHLH RUEHNEH RUEHPW  
DE RUEHNE #2482/01 3451222  
ZNR UUUUU ZZH  
O 111222Z DEC 09  
FM AMEMBASSY NEW DELHI  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 8866  
INFO RHEHAAA/WHITE HOUSE WASHDC IMMEDIATE  
RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE  
RHEHNSC/NSC WASHDC  
RUCPDO/DEPT OF COMMERCE WASHDC  
RHEBAAA/DEPT OF ENERGY WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RULSDMK/DEPT OF TRANSPORTATION WASHDC  
RHMCSUU/FAA NATIONAL HQ WASHINGTON DC  
RUEHRC/DEPT OF AGRICULTURE WASHDC

UNCLAS SECTION 01 OF 03 NEW DELHI 002482

SENSITIVE  
SIPDIS

USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD  
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR  
DEPT PASS TO USTR MDELANEY/CLILIEFELD/AADLER  
TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT  
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN  
USDA PASS FAS/OCRA/RADLER/BEAN/FERUS

E.O. 12958: N/A

TAGS: [ECON](#) [PINR](#) [EFIN](#) [EINV](#) [EAID](#) [ECIN](#) [EIND](#) [ELTN](#) [ETRD](#) [IN](#)

SUBJECT: New Delhi Weekly Econ Office Highlights for the Week of  
December 7, to December 11, 2009

¶1. Below is a compilation of economic highlights from Embassy New  
Delhi for the week of December 7, to December 11, 2009, including  
the following:

- New Chief Economic Advisor
- GOI Seeks Additional Funds from Parliament
- GOI Drafts New Postal Legislation
- GDP Growth on Path Towards Recovery

#### New Chief Economic Advisor

-----

¶1. (U) On December 8, well-known economist Kaushik Basu, 57,  
replaced Dr. Arvind Virmani as the new Chief Economic Advisor at the  
Ministry of Finance (MOF). Prior to this position, Dr. Basu was the  
Carl Marks Professor of International Studies and Professor of  
Economics and Director at Cornell University.

¶2. (U) Dr. Basu was given the Padma Bhushan Award, one of the  
country's highest civil honors, in 2008. He has held visiting  
positions at Princeton University, Louvain-la-Neuve, the London  
School of Economics, MIT, and Harvard. In 1992, Dr. Basu founded  
the Centre for Development Economics at the Delhi School of  
Economics and was the Centre's first Executive Director till 1996.

¶3. (U) Dr. Basu has a Ph.D degree in Economics (under the Nobel  
laureate Amartya Sen) from the London School of Economics. He has  
published numerous papers in the areas of game theory, development  
economics, child labor, and political economy. He is an editor of  
the Oxford Companion to Economics in India, published by the Oxford  
University Press in 2007. He is a playwright and paints in his  
spare time.

¶4. (U) Upon assuming his new role as Chief Economic Advisor, Dr.  
Basu advocated for further financial reforms, saying that the  
government's role is to evolve new policies which regulate financial  
sector behavior without stifling enterprise and innovation. Dr.  
Basu also opined that the high growth achieved in recent years must

not be compromised and that ten percent growth is an achievable target. He indicated that while some of the fiscal deficit was a natural consequence from the necessary fiscal stimulus, the deficit needs to be reduced in the medium term. He believes that India must cut down on bureaucratic hurdles and corruption in order to energize the economy.

¶5. (SBU) Comment: The Prime Minister appointed Dr. Basu and gave him the rank of Secretary, a higher level than that of his predecessor, indicating the importance and influence Dr. Basu may have within the government. If true, Dr. Basu could be a welcome addition to the GOI's economic team as his reformist ideas may be the push needed to get proposed economic reforms back on track. End comment.

#### GOI Seeks Additional Funds from Parliament

-----

¶6. (U) Finance Minister Pranab Mukherjee asked Parliament to approve an additional \$6.6 billion in a supplemental budget request for spending in the final quarter (January - March, 2010) of the current fiscal year. The Finance Minister said the supplemental spending would not require additional borrowing but would be paid for through cost savings, proceeds from the anticipated 3G spectrum auction (septel), tax revenues and the expected return of funds by Ministries, which normally occurs each year as the Ministries are not able to spend all the money allotted during the year. The Finance Ministry anticipates the fiscal deficit to be 6.8 percent of GDP at the end of the fiscal year.

¶7. (U) The total request was for \$6.6 billion, of which \$638 million and \$736 million would be used for fertilizer and food subsidies, respectively, to mitigate the impact of this year's drought. An

NEW DELHI 00002482 002 OF 003

additional \$255 million would be spent on drought and flood relief programs. Approximately \$1.4 billion would be targeted for pensions of defense personnel and central government employees required by the implementation of the Sixth Pay Commission report. Infrastructure companies involved in projects for next year's Commonwealth Games would receive \$213 million and metro projects across the country would get an additional \$430 million. Approximately \$668 million would be transferred to the National Investment Fund for social sector schemes. The government also expects to infuse \$170 million into the loss-making National Aviation Company of India, which runs Air India. Other public sector projects and child development programs would receive the remaining amount of money.

#### GOI Drafts New Postal Legislation

-----

¶8. (SBU) On December 2, express delivery representatives from the United States and Europe, including UPS and FedEx, and EconOff met in Mumbai with drafters of the new postal law for India. In October, the GOI commissioned the Administrative Staff College of India (ACSI) to rewrite the 1898 postal law within nine months. ACSI plans to hold discussions with key industry members, both in the express delivery and courier sector, the Department of Posts (DoP) and the Ministry of Finance (MoF) before formulating the final draft of the legislation.

¶9. (SBU) The legislation will address how to pay for a universal service obligation, financial self-sufficiency of the postal system, and regulation of the three different industry sectors - post office, courier services, and express delivery services. The final draft will be reviewed by the Department of Posts and submitted to the Cabinet before the legislation is presented to Parliament. Members of UPS and Fed Ex are concerned that ACSI has not reached out to economic and trade officials to ask for their input into the legislation and the final draft may head to the Cabinet without adequate representation. They suggest that the U.S. and EU form a joint delegation of economic, trade and commercial officials to engage the proper GOI officials in the early stages of the draft postal legislation and ensure the final product represents the interests of all vested parties before it is presented to the Cabinet.

¶10. (U) The economy grew 7.9 percent in the second quarter (July-September) of FY 2009-10, much higher than the consensus estimates of 6.3 percent. The better-than-expected result was primarily due to the agriculture sector, which most analysts expected to decline sharply due to the delayed monsoon rains from June to September but actually grew slightly less than one percent in the second quarter. Current speculation now is that impact of the poor monsoon will be felt in the third quarter of FY09/10.

¶11. (U) In addition to agriculture, on the supply side, services and industry grew 9.3 and 8.3 percent, respectively. Within services, trade, transport and communications were up 8.5 percent, while community services grew 12.7 percent, largely due to payment of back pay to the public sector. For industry, manufacturing led the way, growing 9.2 percent, primarily driven by growth in consumer durables and the automobile sector as low interest rates drove the demand for manufactured goods.

¶12. (U) On the demand side, the rise in GDP during July-September was led by private consumption, up 5.6 percent due to stimulus measures, government spending, up 27 percent, and investment, up 7.3 percent, reflecting increased traction in ongoing investment projects due to better availability of finances.

¶13. (U) Easing industry concerns, Planning Commission Deputy Chairman Montek Ahluwalia announced that stimulus measures would likely continue through the end of March 2010, despite the strong growth over the second quarter. Meanwhile, the Prime Minister's Economic Advisory Council (PMEAC) announced that it will consider

NEW DELHI 00002482 003 OF 003

revising the overall economic growth forecast upwards from 6.5 percent for the current fiscal year. While the chairman of the PMEAC, C. Rangarajan told reporters the rate might be as high as seven percent, Ahluwalia commented to media that the revised growth projection may actually fall anywhere between 6.5 and seven percent. Ahluwalia also noted to the press that India's economy could grow at 7.5 percent in FY 2010-11.

¶14. Visit New Delhi's Classified Website:  
<http://www.state.sgov/p/sa/newdelhi>.

ROEMER